

**ARC KNOX COUNTY**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND JUNE 30, 2014**

**ARC KNOX COUNTY**

**FINANCIAL STATEMENTS**

June 30, 2015 and June 30, 2014

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Arc Knox County

### **Report on the Financial Statements**

I have audited the accompanying financial statements of Arc Knox County (the Arc) (a non-profit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arc Knox County as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and State Awards shown on page 20 and the Supporting Schedules of Revenue and Support shown on page 21 and 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated January 22, 2016, on my consideration of the Arc's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arc Knox County's internal control over financial reporting and compliance.

  
Certified Public Accountant

January 22, 2016

**ARC KNOX COUNTY**  
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	<u>2015</u>	<u>2014</u>
<b><u>ASSETS</u></b>		
Current assets:-		
Cash and cash equivalents:		
Unrestricted	\$ 420,426	\$ 552,447
Restricted	21,394	20,632
Grantor receivables	81,792	87,897
Due from Affiliate	244,445	259,345
Accounts receivable, net of allowance for doubtful accounts	59,738	110,839
Miscellaneous receivables	3,527	1,633
Donated property held for resale	50,000	
Inventory	308,633	281,058
Prepaid expenses	37,023	37,382
	<hr/>	<hr/>
Total current assets	1,226,978	1,351,233
	<hr/>	<hr/>
Land, buildings and equipment:		
Land	123,280	123,280
Buildings and improvements	1,531,169	1,434,274
Vehicles	168,527	146,607
Other equipment	425,966	431,508
	<hr/>	<hr/>
	2,248,942	2,135,669
Less allowance for depreciation	(1,624,290)	(1,563,438)
	<hr/>	<hr/>
	624,652	572,231
	<hr/>	<hr/>
Other noncurrent assets:		
Utility deposits	730	730
Long-term investments	1,867,458	1,845,725
	<hr/>	<hr/>
	1,868,188	1,846,455
	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 3,719,818</b>	<b>\$ 3,769,919</b>
	<hr/>	<hr/>

	June 30,	
	<u>2015</u>	<u>2014</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current liabilities:		
Accounts payable	\$ 26,265	\$ 14,072
Accrued expenses	91,001	95,531
Accrued leave liability	<u>79,386</u>	<u>79,018</u>
Total current liabilities	<u>196,652</u>	<u>188,621</u>
Net assets:		
Unrestricted	3,501,772	3,560,666
Temporarily restricted	<u>21,394</u>	<u>20,632</u>
Total net assets	<u>3,523,166</u>	<u>3,581,298</u>
 <b>Total Liabilities and Net Assets</b>	 <b><u>\$ 3,719,818</u></b>	 <b><u>\$ 3,769,919</u></b>

**ARC KNOX COUNTY**  
**STATEMENTS OF ACTIVITIES**

	Year Ended June 30,	
	<u>2015</u>	<u>2014</u>
<b>Changes in Unrestricted Net Assets</b>		
<b>Revenues:</b>		
Contributions	\$ 29,130	\$ 2,798
Fundraising revenue	7,849	9,298
Grants from governmental agencies	1,108,246	1,097,286
Recreation funds and fees	96,663	67,801
Fees	160,923	186,033
Membership dues	390	895
Independent Living Program fees	144,347	147,663
Food stamps	10,548	13,027
Industrial contracts	801,717	455,665
Miscellaneous	3,967	5,016
Interest income	141	234
Management fees	9,650	9,744
Allocation from United Way	147,888	147,031
In-kind donations	<u>50,000</u>	<u>2,300</u>
Total unrestricted revenues	2,571,459	2,144,791
Net assets released from restrictions	<u>2,378</u>	<u>665</u>
<b>Total unrestricted revenues and other support</b>	<u>2,573,837</u>	<u>2,145,456</u>
<b>Expenses:</b>		
Program expenses	2,648,678	2,314,632
Management and general	8,859	7,184
Fundraising expenses	<u>4,229</u>	<u>5,413</u>
<b>Total expenses</b>	<u>2,661,766</u>	<u>2,327,229</u>
<b>Change in Unrestricted Net Assets Forward to Page 6</b>	<u>(87,929)</u>	<u>(181,773)</u>

**ARC KNOX COUNTY**  
STATEMENTS OF ACTIVITIES (continued)

	Year Ended June 30,	
	<u>2015</u>	<u>2014</u>
<b>Change in Unrestricted Net Assets</b>		
Forwarded from Page 5	\$ (87,929)	\$ (181,773)
 <b>Changes in Temporarily Restricted Net Assets</b>		
Contributions and grants	3,140	5,914
Net assets released from restrictions	<u>(2,378)</u>	<u>(665)</u>
 <b>Change in Temporarily Restricted Net Assets</b>	 <u>762</u>	 <u>5,249</u>
 <b>Net Investment Gain</b>	 <u>29,035</u>	 <u>223,763</u>
 <b>Change in Net Assets</b>	 (58,132)	 47,239
 <b>Net Assets at Beginning of Year</b>	 <u>3,581,298</u>	 <u>3,534,059</u>
 <b>Net Assets at End of Year</b>	 <u><u>\$ 3,523,166</u></u>	 <u><u>\$ 3,581,298</u></u>

*See accompanying Notes to Financial Statements.*



**ARC KNOX COUNTY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2015

	Program Expenses							Supporting Services			
	Beta Group Homes	Enclave Program	Client Retirement Program	Sunshine Industries	Early Intervention Program	Independent Living Program	Employment Services Program	Total Program Expenses	Management and General	Fundraising	Total Expenses
Salaries and wages	\$253,055	\$ 69,209	\$ 35,101	\$ 610,693	\$ 195,381	\$ 52,738	\$ 64,261	\$ 1,280,438	\$ 205,373		\$ 1,485,811
Employee health benefits	21,551	4,732	4,358	42,069	10,225	5,709	8,757	97,401	11,221		108,622
Payroll taxes and workmen's compensation insurance	24,516	6,766	3,191	62,054	16,708	4,158	5,991	123,384	18,360		141,744
Professional fees and contracted services	7,897		60	37,694	2,898	4,685	60	53,294	25,406		78,700
Office and household supplies	36,695	16	304	13,956	2,706	173	294	54,144	10,663		64,807
Cost of goods sold				394,366				394,366			394,366
Client recreation			29	78,629				78,658			78,658
Telephone	3,060	180		4,882	916	1,694	360	11,092	4,100		15,192
Postage and shipping	112			7,026	79			7,217	2,325		9,542
Building occupancy	2,518		600	55,736	3,655	7,116	34	69,659	24,393		94,052
Food stamps	10,548							10,548			10,548
Travel	7,921	1,246	451	34,428	25,035	4,060	3,433	76,574	753		77,327
Conference and conventions	749		35	147	263	34	178	1,406	527		1,933
Printing and publications	90			337	1,724		75	2,226	2,813		5,039
Equipment rental and maintenance	33			2,433				2,466	185		2,651
Miscellaneous	2,708			3,886	109			6,703	813		7,516
Interest				2				2			2
Dues and support to State and National Associations				80				80	7,109		7,189
Depreciation	8,907			40,503	814	14,081		64,305	7,218		71,523
Fundraising										\$ 4,229	4,229
Loss on fixed asset disposal								-	2,315		2,315
Indirect cost allocation	78,917	7,689	11,047	122,240	60,602	15,490	18,730	314,715	(314,715)		-
Total expenses	\$459,277	\$ 89,838	\$ 55,176	\$ 1,511,161	\$ 321,115	\$ 109,938	\$ 102,173	\$ 2,648,678	\$ 8,859	\$ 4,229	\$ 2,661,766

See accompanying Notes to Financial Statements

**ARC KNOX COUNTY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2014

	Program Expenses							Supporting Services			
	Beta Group Homes	Enclave Program	Client Retirement Program	Sunshine Industries	Early Intervention Program	Independent Living Program	Employment Services Program	Total Program Expenses	Management and General	Fundraising	Total Expenses
Salaries and wages	\$255,303	\$ 20,169	\$ 35,658	\$ 649,356	\$ 178,538	\$ 40,910	\$ 117,039	\$ 1,296,973	\$ 219,637		\$ 1,516,610
Employee health benefits	22,197	328	3,200	39,278	7,746	5,077	11,593	89,419	15,708		105,127
Payroll taxes and workmen's compensation insurance	23,775	1,988	3,219	68,688	16,204	3,750	11,422	129,046	19,718		148,764
Professional fees and contracted services	4,258	69		22,069	580	3,548	120	30,644	25,335		55,979
Office and household supplies	33,824	7	461	18,581	2,411	1,103	1,697	58,084	10,788		68,872
Cost of goods sold				75,732				75,732			75,732
Client recreation			544	50,635				51,179			51,179
Telephone	2,750			4,862	900	1,723	540	10,775	3,725		14,500
Postage and shipping	57			2,021	52			2,130	2,247		4,377
Building occupancy	2,919		600	53,830	3,678	7,871	33	68,931	24,666		93,597
Food stamps	13,027							13,027			13,027
Travel	11,609	915	842	35,170	21,280	8,028	4,127	81,971	821		82,792
Conference and conventions	478	600	9	416	946	31	38	2,518	175		2,693
Printing and publications	233			1,445	(20)			1,658	3,134		4,792
Equipment rental and maintenance				3,482				3,482			3,482
Miscellaneous	2,334			2,108	16	746		5,204	(277)		4,927
Interest				2				2			2
Dues and support to State and National Associations	90			260	50			400	6,594		6,994
Depreciation	7,000			39,001	814	12,228		59,043	6,389		65,432
Fundraising										\$ 5,413	5,413
Loss on fixed asset disposal	117			5,621				5,738	(2,800)		2,938
Indirect cost allocation	82,991	1,522	11,273	135,604	58,078	13,251	25,957	328,676	(328,676)		
Total expenses	\$462,962	\$ 25,598	\$ 55,806	\$ 1,208,161	\$ 291,273	\$ 98,266	\$ 172,566	\$ 2,314,632	\$ 7,184	\$ 5,413	\$ 2,327,229

See accompanying Notes to Financial Statements

**ARC KNOX COUNTY**  
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Cash received from federal, state, and local grants	\$ 1,114,352	\$ 1,252,017
Interest income received	141	234
Cash received from customers	825,243	418,460
Contributions received	32,270	8,712
United Way	147,888	147,031
Other fees received	411,973	412,136
Miscellaneous income received	3,967	5,015
Net cash received from fundraising	3,620	3,885
Cash paid to employees and suppliers	(2,402,707)	(2,090,397)
Payroll taxes and workmen's compensation insurance paid	(141,744)	(148,764)
Interest paid	(2)	(2)
	<u>                    </u>	<u>                    </u>
Net cash (used for) received from operating activities (page 10)	<u>(4,999)</u>	<u>8,327</u>
 <b>Cash flows from investing activities:</b>		
Net (purchase) of fixed assets	(126,260)	(64,986)
Cash received from long-term investments	<u>                    </u>	<u>76,825</u>
	<u>                    </u>	<u>                    </u>
Net investing (outflows) inflows	<u>(126,260)</u>	<u>11,839</u>
 <b>Net Change in Cash</b>	 (131,259)	 20,166
 <b>Beginning Cash</b>	 <u>573,079</u>	 <u>552,913</u>
 <b>Ending Cash</b>	 <u><u>\$ 441,820</u></u>	 <u><u>\$ 573,079</u></u>

**ARC KNOX COUNTY**  
**STATEMENTS OF CASH FLOWS (continued)**

	Year Ended June 30,	
	<u>2015</u>	<u>2014</u>
<b>Reconciliation of change in net assets to net cash (used for) received from operating activities:</b>		
Change in net assets	\$ (58,132)	\$ 47,239
Adjustments to reconcile change in net assets to net cash (used for) received from operating activities:		
Depreciation	71,523	65,432
Loss on asset disposal	2,315	2,938
In-kind donations	(50,000)	(2,300)
Net investment (income) loss	(21,732)	5,516
Changes in operating assets and liabilities:		
Receivables	55,312	(96,298)
Amount due from Affiliate	14,900	32,260
Inventory	(27,575)	(24,185)
Prepaid expenses	359	(2,329)
Accounts payable	12,193	10,661
Accrued expenses	(4,530)	(23,206)
Accrued leave	368	(7,401)
	<hr/>	<hr/>
<b>Net Cash (Used for) Received from Operating Activities (page 9)</b>	<b><u>\$ (4,999)</u></b>	<b><u>\$ 8,327</u></b>
 <b>Supplemental Disclosures of Noncash Activities:</b>		
<i>Food stamps received and spent</i>	<b><u>\$ 10,548</u></b>	<b><u>\$ 13,027</u></b>
<i>In-kind donations</i>	<b><u>\$ 50,000</u></b>	<b><u>\$ 2,300</u></b>

*See accompanying Notes to Financial Statements.*

**ARC KNOX COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015 and 2014

**NOTE 1 – Nature of Organization and Significant Accounting Policies:**

**Nature of organization:**

Arc Knox County (the Arc) is a 501(c)(3) non-profit corporation dedicated to promoting the general welfare of persons with intellectual disabilities by encouraging as much independence as possible in their choices of work, recreation, education, and living situation. To accomplish its mission, the Arc provides an array of employment, educational, residential, and recreational services. The activities of the Arc are funded by a diverse group of supporters including local, state, and federal governments, United Way, donations, and industrial subcontracts.

**The significant accounting policies are as follows:**

*Basis of accounting* – The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

*Public support and revenues* – Grants and other contributions are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. Such donations are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted support.

*Cash and cash equivalents* – For purposes of the Statements of Cash Flows, Arc Knox County defines cash and cash equivalents as petty cash accounts, bank checking accounts, and bank savings accounts.

*Accounts receivable* – Accounts receivable are reviewed by the governing board and an allowance for doubtful accounts is provided for possible future write-offs. Bad debts are charged off to the allowance when determined to be uncollectible. There were no accounts written off during the years ended June 30, 2015 or 2014. The allowance for doubtful accounts was \$800 at June 30, 2015 and 2014.

*Inventory* – Inventories are stated at the lower of cost or market. Cost is determined using the average cost method. Inventory cost is expensed when goods are shipped. Management periodically evaluates the net realizable value of all inventories to ensure that any impairment is recognized in the period in which they are incurred.

**NOTE 1 – (continued):**

*Land, buildings, and equipment* – Disbursements for land, buildings, and equipment of \$1,000 or more with an estimated useful life of three or more years, are capitalized and reflected in the Statements of Financial Position at cost, except for donated assets, which are capitalized at fair value at the date of gift. Expenditures for additions, major renewals and improvements are capitalized while those for maintenance and repairs are charged to expenses as incurred. Depreciation is computed on the straight-line method over the estimated useful lives of three to twenty years. Depreciation expense for the years ended June 30, 2015 and 2014 is \$71,523 and \$65,432 respectively.

*Estimates* – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*In-kind donations* – The Arc recognizes the value of donated supplies and fixed assets (property and equipment) at fair value at the date of the donation. If donors stipulate how long donations of property or equipment must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support, along with donations of supplies. In the year ended June 30, 2015, the Arc received donated property valued at \$50,000 (Note 14). In the year ended June 30, 2014, the Arc received donated office equipment with a fair value of \$2,300.

A substantial number of volunteers have donated significant amounts of their time in Arc Knox County's programs. However, no amounts have been reflected in the accompanying financial statements for donated services because these services do not meet the criteria for recognition under generally accepted accounting principles.

*Tax exempt status* – Arc Knox County is a not-for-profit corporation that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. In addition, the Arc qualifies for the charitable contributions deduction under Section 170 (b)(1)(A). The Arc did not have any unrelated business income for the years ended June 30, 2015 or 2014.

*Expense allocation* – The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited on the basis of total direct salaries.

**NOTE 2 – Cash and cash equivalents:**

Cash and cash equivalents were as follows at June 30:

	<u>2015</u>	June 30, <u>2014</u>
Petty cash	<u>\$ 1,555</u>	<u>\$ 1,555</u>
Cash in banks – unrestricted:		
Undesignated	321,897	458,556
Designated (Note 5)	<u>96,974</u>	<u>92,336</u>
	<u>418,871</u>	<u>550,892</u>
Cash in banks – restricted (Note 3)	<u>21,394</u>	<u>20,632</u>
	<u>\$441,820</u>	<u>\$573,079</u>

There were no cash balances on deposit in excess of federal insurance limits at June 30, 2015 or 2014.

**NOTE 3 – Temporarily Restricted Net Assets:**

Temporarily restricted net assets are as follows:

	<u>2015</u>	June 30, <u>2014</u>
Memorial funds received but not spent according to restrictions	\$ 19,394	\$ 20,632
Restricted for specific purposes	<u>2,000</u>	<u>-</u>
	<u>\$ 21,394</u>	<u>\$ 20,632</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	<u>2015</u>	June 30, <u>2014</u>
Purpose restrictions accomplished:		
Net Memorial Fund expenditures	<u>\$ 2,378</u>	<u>\$ 665</u>

**NOTE 4 – Cost of Goods Sold:**

In connection with the production contracts for various commodities (Note 12), Arc Knox County recorded cost of goods sold as follows:

	Year Ended June 30,	
	<u>2015</u>	<u>2014</u>
Beginning inventory	\$ 281,058	\$ 305,243
Plus purchase of production supplies and materials	421,941	51,547
Less ending inventory	<u>(308,633)</u>	<u>(281,058)</u>
Costs of goods sold	<u>\$ 394,366</u>	<u>\$ 75,732</u>

Inventory at June 30, 2015 included finished goods valued at \$9,682 and production materials and supplies with a cost of \$298,951. Inventory at June 30, 2014 includes finished goods valued at \$13,505 and production materials and supplies with a cost of \$267,553.

**NOTE 5 – Designated Cash:**

Arc Knox County's board has designated certain cash funds to be used in the future for specific purposes as follows:

	<u>2015</u>	<u>2014</u>
Designated for future vehicle replacement	\$ 32,081	\$ 29,679
Designated for recreation activities	<u>64,893</u>	<u>62,657</u>
	<u>\$ 96,974</u>	<u>\$ 92,336</u>



**NOTE 6 - Changes in Fixed Asset Accounts:***For the year ended June 30, 2015:*

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 123,280			\$ 123,280
Buildings and improvements	1,434,274	\$ 104,590	\$ 7,695	1,531,169
Vehicles	146,607	21,920		168,527
Equipment	431,508		5,542	425,966
	<u>\$ 2,135,669</u>	<u>\$ 126,510</u>	<u>\$ 13,237</u>	<u>\$ 2,248,942</u>

Accumulated depreciation:

Buildings and improvements	\$ 1,109,583	\$ 37,226	\$ 5,130	\$ 1,141,679
Vehicles	110,441	11,662		122,103
Equipment	343,414	22,635	5,541	360,508
	<u>\$ 1,563,438</u>	<u>\$ 71,523</u>	<u>\$ 10,671</u>	<u>\$ 1,624,290</u>

*For the year ended June 30, 2014:*

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 123,280			\$ 123,280
Buildings and improvements	1,429,844	\$ 4,430		1,434,274
Vehicles	140,936	43,796	\$ 38,125	146,607
Equipment	425,687	22,360	16,539	431,508
	<u>\$ 2,119,747</u>	<u>\$ 70,586</u>	<u>\$ 54,664</u>	<u>\$ 2,135,669</u>

Accumulated depreciation:

Buildings and improvements	\$ 1,074,568	\$ 35,015		\$ 1,109,583
Vehicles	138,940	9,009	\$ 37,508	110,441
Equipment	332,925	21,408	10,919	343,414
	<u>\$ 1,546,433</u>	<u>\$ 65,432</u>	<u>\$ 48,427</u>	<u>\$ 1,563,438</u>

Net book values are as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Land	\$ 123,280	\$ 123,280
Buildings and improvements	389,490	324,691
Vehicles	46,424	36,166
Equipment	<u>65,458</u>	<u>88,094</u>
	<u>\$ 624,652</u>	<u>\$ 572,231</u>

**NOTE 7 – Long-term Investments:**

Investments are recorded at fair value and the investment return (loss) is reflected in the Statements of Activities. These funds have been designated by the Arc's board to be used for capital improvements and are classified as noncurrent assets. These investments are not insured by the FDIC or any other agency. The investment balance at year end is summarized as follows:

	June 30,	
	<u>2015</u>	<u>2016</u>
East Tennessee Foundation (see below)	<u>\$ 1,867,458</u>	<u>\$ 1,845,725</u>

**Investment results for the year are as follows:**

	June 30,	
	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 22,858	\$ 38,685
Realized gains	98,815	96,385
Unrealized (loss) gains	<u>(92,638)</u>	<u>88,693</u>
Net investment gains	<u>\$ 29,035</u>	<u>\$ 223,763</u>

Arc Knox County maintains an investment account (the KCARC Endowment Fund) that is held in East Tennessee Foundation's long-term commingled investment fund, which is a unitized investment pool. The KCARC Endowment Fund has a pro-rata share of the overall pool. East Tennessee Foundation adopted FASB ASC 820-10, *Fair Value Measurements*, which establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability and whether they are observable or unobservable. On June 30, 83.1% (2015) and 80.3% (2014) of the commingled fund was invested in mutual funds that have quoted share prices in active markets and are thus considered Level 1 investments. 16.9% (2015) and 19.7% (2014) was invested in an absolute return pool and private investment vehicles for which inputs are unobservable and are thus considered Level 3 investments. The methodology for valuing these assets for which observable prices in active markets do not exist is included in East Tennessee Foundation's audited financial statements for the years ending December 31, 2014 and 2013.

East Tennessee Foundation will hold, manage, invest, and administer the KCARC Endowment Fund. The Board of Directors of the East Tennessee Foundation has the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, undesirable, impractical, incapable of fulfillment, or inconsistent with the charitable needs of the community served. Accumulated net earnings of the KCARC Endowment Fund may be distributed to the Arc at the discretion of East Tennessee Foundation's Board of Directors. There were no distributions during the year ended June 30, 2015, and distributions were \$76,825 during the year ended June 30, 2014.

**NOTE 8 – Line-of-Credit:**

Arc Knox County has a \$125,000 unsecured line-of-credit that expires March 5, 2016. Interest is at a variable rate of 2.00% over the Lender's index rate (5.25% at June 30, 2015). The line-of-credit was not utilized during the years ended June 30, 2015 or 2014.

**NOTE 9 – Affiliation with Beta Home, Inc.:**

In 1998, Arc Knox County entered into an affiliation agreement with Beta Home, Inc. (the Affiliate). Under this agreement, the operations of Beta Home, Inc. ceased and all activities, except for Beta II HUD House and Beta III HUD House, were merged with the Arc. Arc Knox County is the management agent for Beta II HUD House and Beta III HUD House. The Affiliate continues to be the owner of the real property and the mortgages for Beta II HUD House and Beta III HUD House.

As part of the merger of operations of Arc Knox County and Beta Home, Inc., all of the assets (except for the real property) and all of the liabilities (except for the mortgages) of Beta Home, Inc. were transferred to the Arc.

The Affiliate paid management fees to Arc Knox County equal to 5.86% (Beta II HUD House) and 9.05% (Beta III HUD House), of residential income collected. Management fees received during the year by Arc Knox County from the Affiliate totaled \$9,650 for the year ended June 30, 2015 and \$9,744 for the year ended June 30, 2014.

Beta Home, Inc. owed the Arc \$244,445 at June 30, 2015, and \$259,345 at June 30, 2014, representing reimbursable expenses.

**NOTE 10 - Disclosure of Fair Value:**

The financial statements are prepared in accordance with FASB ASC 820 for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements or on a recurring basis (at least annually). FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on a measurement date.

The Arc used the following methods and assumptions in estimating the fair value of these financial instruments:

*Cash, cash equivalents, accounts and other receivables* – The carrying amounts approximate fair value due to the short-term maturity of these instruments.

*Inventory held for resale* – Fair value is based on current market values as determined by recent sales prices of the inventory items.

*Accounts payable and accrued liabilities* – The carrying amounts approximate fair value due to the short-term maturity of these instruments.

(See Note 7 for Fair Value Measurements in regards to investments.)

**NOTE 11 – Concentration of Risk:**

Arc Knox County maintains cash balances at high-quality financial institutions located in Knoxville, Tennessee. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At various times during the year, cash at these institutions may exceed federally insured limits. All cash balances at June 30, 2015 and 2014 were insured. The Arc has not experienced any losses on its cash or cash equivalents.

**NOTE 11 – (continued):**

The Arc also maintains an investment portfolio that consists of governmental money market accounts and mutual funds (Note 7). These accounts are not insured for principal or market value losses.

Arc Knox County received the majority of its operating income from grants and from industrial contracts. The major portion of grant revenues was received from the State of Tennessee Division of Intellectual Disabilities Services and the State of Tennessee Department of Human Services. These Departments provide revenues under regulatory agreements based on the services provided by the Arc to qualifying individuals.

Industrial contract revenues result from manufacturing by the Arc of certain products under government contracts (Note 12), and providing packaging, cardboard fabrication, bulk mailings, etc. for area businesses.

A significant reduction in the levels of support or industrial contracts discussed above, were this to occur, and could have a significant impact upon the operations of Arc Knox County.

**NOTE 12 – Description of Program and Supporting Services:**

The following program and supporting services are included in the accompanying financial statements:

*Beta Group Homes* - Management of two group homes owned by Beta Home, Inc. (Note 9), and operated and regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The primary purpose of this program is to nurture and protect the health, safety, and development of each mentally ill and intellectually disabled adult resident of these homes.

*Enclave Program* - Provides employment for clients at the University Health Systems. These programs offer community-based training for some clients (those who require a higher level of supervision than competitive employment can offer) and provide transition from the workshop to competitive employment for other clients.

*Client Retirement Program* - Addresses the changing needs of aging clients with intellectual disabilities by helping seniors maintain mental activity, physical stamina, and flexibility, using established techniques that are successful with the geriatric population while taking into account the client's abilities, interests, and limitations.

*Sunshine Industries* - Provides a variety of employment opportunities for mentally handicapped persons in a sheltered environment through contracts awarded as follows:

-A contract awarded in 1984 with the U.S. Government through the Javitts-Wagner-O'Day Program (JWOD) and the National Industries for the Severely Handicapped. The contract stipulates that the Government Service Administration (GSA) will purchase 100% of its requirements for metal bookcases from the Arc. The contract does not have to be re-bid or renegotiated and cannot be cancelled by the GSA as long as Arc Knox County meets production and quality requirements. Other JWOD contracts awarded to the Arc include the production of GSA credenzas, Federal Prison Industries table legs, clamp fasteners, reeling machines, mast sections, fuel can cradles, large bookcases, office stands, hangers, and coast guard solar kits.

-Other smaller Department of Defense and Federal Prison Industries contracts have been awarded to the Arc. These contracts involve metal fabrication of parts for various commodities. The revenue from these contracts varies, depending on the contract specifications.

**NOTE 12 – (continued):**

-Light industrial subcontract work for area businesses, involving packaging, cardboard fabrication, bulk mailings, recycling, and inspection.

*Early intervention* - Provides training to families with infants/children with disabilities up to age three. Works on developmental milestones with the children and teaches the families and caregiver/daycare staff how to provide activities to stimulate growth in needed areas.

*Independent Living* - Provides minimal staff supervision for clients living independently in the community. Provides training in independent living skills and individualized supports.

*Employment Services* - Provides supported employment/follow along services to eligible individuals. Offers situational assessments, job placement, job coaching, and follow-up services as needed.

*Management and General* - Includes all functions necessary to administer Arc Knox County's programs and services and manage the financial and budgetary responsibilities of the Arc.

*Leisure Services* - Provides a wide array of recreational opportunities to clients of the Arc's programs. Activities are designed to be therapeutic in nature and teach/enhance decision-making skills as well as self-esteem with increased competence and independence. The revenues and costs associated with Leisure Services are included in the Sunshine Industries Program category in these financial statements. Fundraising events to provide additional revenues for recreational activities are shown separately in the financial statements.

**NOTE 13 – Arc Knox County Name Change:**

In January, 2014, the entity's Board of Directors voted to change the corporation's name from Knox County Association for Retarded Citizens to Arc Knox County. Articles of Amendment to the Charter were filed and approved by the State of Tennessee Secretary of State on February 19, 2014.

**NOTE 14 - Donated Property:**

In December, 2014, Arc Knox County received a donation of house and land located in Knoxville, TN. This donation was recorded at \$50,000, which approximated fair value at the time of the donation. Arc immediately made arrangements to try to sale the property and did not intend to use it for programs or operations. The property is shown on the Statements of Financial Position at June 30, 2015 under the heading "Donated property held for resale". Subsequent to year end, the property was sold for \$68,500, less closing costs of \$648, or \$67,852. In the year end June 30, 2016, the Arc will record a gain of \$17,852 for the difference between the donated value and the actual sales proceeds.

**NOTE 15 – Evaluation of Subsequent Events:**

The Arc has evaluated subsequent events through January 22, 2016, which is the date the financial statements were available to be issued.

**ARC KNOX COUNTY (formerly Knox County Association for Retarded Citizens)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

Year Ended June 30, 2015

<u>Grantor Agency/Program Name</u>	<u>CDFA Number</u>	<u>Balance 7/1/2014</u>	<u>Grantor Receipts</u>	<u>Expenditures</u>	<u>Balance 6/30/2015</u>
<b>Federal Awards:</b>					
<i>U.S. Dept. of Agriculture/Food Stamps</i>	10.561		<b>\$ 10,548</b>	<b>\$ 10,548</b>	
<i>U.S. Dept. of Education:</i>					
Early Intervention Services					
7-1-13 to 6-30-14 contract	84.393	\$ (7,205)	7,205		
7-1-14 to 6-30-15 contract			61,515	67,107	\$ (5,592)
		<u>(7,205)</u>	<u>68,720</u>	<u>67,107</u>	<u>(5,592)</u>
Vocational Rehabilitation					
Letter of Understanding - Supported Employment Program	84.126	(6,257)	87,268	87,142	(6,131)
		<u>(13,462)</u>	<u>155,988</u>	<u>154,249</u>	<u>(11,723)</u>
<b>Total Federal Awards Expenditures</b>		<u><b>(13,462)</b></u>	<u><b>166,536</b></u>	<u><b>164,797</b></u>	<u><b>(11,723)</b></u>
<b>State Awards:</b>					
<i>Tennessee Division of Intellectual Disabilities Services -</i>					
Fees for Services:					
7-1-13 to 6-30-14 contract	n/a	(56,454)	56,454		
7-1-14 to 6-30-15 contract	n/a		620,378	683,682	(63,304)
		<u>(56,454)</u>	<u>676,832</u>	<u>683,682</u>	<u>(63,304)</u>
<i>Tennessee Dept. of Mental Health &amp; Substance Abuse Services-</i>					
Beta Homes, Inc. - group home Contract #42014	n/a		<u>55,060</u>	<u>56,000</u>	<u>(940)</u>
<i>Tennessee Dept. of Education -</i>					
TSD Transition Work Environment Grant	n/a		<u>9,440</u>	<u>9,440</u>	
Early Intervention Services					
7-1-13 to 6-30-14 contract	n/a	(16,288)	16,288		
7-1-14 to 6-30-15 contract	n/a		177,124	181,290	(4,166)
		<u>(16,288)</u>	<u>193,412</u>	<u>181,290</u>	<u>(4,166)</u>
		<u><b>(16,288)</b></u>	<u><b>202,852</b></u>	<u><b>190,730</b></u>	<u><b>(4,166)</b></u>
<i>Tennessee Dept. of Human Services -</i>					
Division of Rehabilitation Services - Letter of Understanding- Supported Employment Program	n/a	<u>(1,693)</u>	<u>23,619</u>	<u>23,585</u>	<u>(1,659)</u>
<b>Total State Awards Expenditures</b>		<u><b>(74,435)</b></u>	<u><b>958,363</b></u>	<u><b>953,997</b></u>	<u><b>(70,069)</b></u>
<b>Grand Total of Federal and State Awards Expenditures</b>		<u><b>\$ (87,897)</b></u>	<u><b>\$ 1,124,899</b></u>	<u><b>\$ 1,118,794</b></u>	<u><b>\$ (81,792)</b></u>

*There were no TYPE A Programs.*

Above schedule is presented on the accrual basis of accounting and is presented in accordance with the requirements of *Government Auditing Standards* and may differ from amounts presented in, or used in the preparation of the basic financial statements.

**ARC KNOX COUNTY**  
**SUPPORTING SCHEDULE OF REVENUE AND SUPPORT**  
For the Year Ended June 30, 2015

	Program							Supporting Services			
	Beta Group Homes	Enclave Program	Client Retirement Program	Sunshine Industries	Early Intervention Program	Independent Living Program	Employment Services Program	Total Program Revenues	Management and General	Fundraising	Total Revenues
Revenues and other support:-											
Contributions and special projects	\$ 10,000			\$ 18,009	\$ 1,021			\$ 29,030	\$ 100		\$ 29,130
Fundraising										\$ 7,849	7,849
Government grants:											
State of Tennessee											
Division of Vocational Rehabilitation				2,840			\$ 107,887	110,727			110,727
State of Tenn. Division of Intellectual Disabilities Services	323,441	\$ 23,675	\$ 85,053	290,610		\$ 16,903		739,682			739,682
Dept. of Education:											
Early Intervention Services					248,397			248,397			248,397
TSD Contract				9,440				9,440			9,440
Recreation funds and fees				96,663				96,663			96,663
Fees:											
Independent living fees	82,927					61,420		144,347			144,347
Knox County Schools				22,460				22,460			22,460
Enclave work programs		85,695						85,695			85,695
Other fees		5,348		47,420				52,768			52,768
Membership dues				10				10	380		390
Food stamps	10,548							10,548			10,548
Industrial contracts				801,717				801,717			801,717
Miscellaneous income	12	31		2,393	80			2,516	1,451		3,967
Interest income	2							2	139		141
Management fees	9,650							9,650			9,650
Allocation from United Way	44,700			55,188	30,000	18,000		147,888			147,888
In-kind donations								-	50,000		50,000
	\$ 481,280	\$ 114,749	\$ 85,053	\$ 1,346,750	\$ 279,498	\$ 96,323	\$ 107,887	\$ 2,511,540	\$ 52,070	\$ 7,849	\$ 2,571,459

**ARC KNOX COUNTY**  
**SUPPORTING SCHEDULE OF REVENUE AND SUPPORT**  
For the Year Ended June 30, 2014

	Program							Supporting Services			
	Beta Group Homes	Enclave Program	Client Retirement Program	Sunshine Industries	Early Intervention Program	Independent Living Program	Employment Services Program	Total Program Revenues	Management and General	Fundraising	Total Revenues
Revenues and other support:-											
Contributions and special projects				\$ 2,748				\$ 2,748	\$ 50		\$ 2,798
Fundraising										\$ 9,298	9,298
Government grants:											
State of Tennessee											
Division of Vocational Rehabilitation							\$ 88,783	88,783			88,783
State of Tenn. Division of Intellectual Disabilities Services	\$ 312,554	\$ 17,848	\$ 109,333	290,579		\$ 10,861	11,295	752,470			752,470
Dept. of Education:											
Early Intervention Services					\$ 246,593			246,593			246,593
TSD Contract				9,440				9,440			9,440
Recreation funds and fees				67,801				67,801			67,801
Fees:											
Independent living fees	88,356					59,307		147,663			147,663
Knox County Schools				21,600				21,600			21,600
Enclave work programs		107,185						107,185			107,185
Other fees				57,248				57,248			57,248
Membership dues				50				50	845		895
Food stamps	13,027							13,027			13,027
Industrial contracts				455,665				455,665			455,665
Miscellaneous income		495		3,208		22		3,725	1,291		5,016
Interest income	5							5	229		234
Management fees	9,744							9,744			9,744
Allocation from United Way	44,700			54,331	30,000	18,000		147,031			147,031
In-kind donations				2,300				2,300			2,300
	\$ 468,386	\$ 125,528	\$ 109,333	\$ 964,970	\$ 276,593	\$ 88,190	\$ 100,078	\$ 2,133,078	\$ 2,415	\$ 9,298	\$ 2,144,791



# ***Kim W. Grubb, C.P.A.***

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## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Arc Knox County

I have audited, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Arc Knox County (the Arc) (a non-profit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated January 22, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the Arc's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arc Knox County's internal control. Accordingly, I do not express an opinion on the effectiveness of the Arc's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, Recommendations, and Management's Response that I consider to be significant deficiencies. (References #15-1 and #15-2)

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Arc Knox County's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Management's Response to Findings**

Arc Knox County's response to the findings identified in my audit is described in the accompanying Schedule of Findings, Recommendations, and Management's Response. The Arc's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, I express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Arc's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arc Knox County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Certified Public Accountant

January 22, 2016

**ARC KNOX COUNTY**  
Schedule of Findings, Recommendations, and Management's Response  
For the Year Ended June 30, 2015

**Financial Statement Findings**

Findings relating to the financial statements, which are required to be reported under *Generally Accepted Government Auditing Standards*:

- #15-1 Due to the size of the Arc's accounting staff, duties are not segregated to the extent necessary for complete internal control.

*Management Response – The Organization has implemented internal controls to the extent that is practical, given the limitations of the size of its accounting staff.*

- #15-2 The investment portfolio of Arc Knox County is not insured for principal market value losses.

*Management Response - The Organization is aware of this situation, and continually monitors its investment vehicles.*

**Note:** These findings were also reported in the prior year audit report (year ended June 30, 2014).

Due to the limitations of the size of the Arc's accounting staff, management is unable to dispose of item #15-1, but has implemented internal controls to the extent that is practical, and continues to monitor the situation.

Management also continues to monitor its investments in response to item #15-2.